



ARIZONA HOUSE OF REPRESENTATIVES

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House: APPROP DP 8-5-0-0

HB 2871: tax; revisions; distributions; 2022-2023

**Sponsor: Representative Cobb (with permission of Committee on Rules), LD 5
Caucus & COW**

Overview

Establishes the Arizona Department of Revenue (DOR) Integrated Tax System Project Fund to implement a modernized tax system. Modifies tax credits and statutory requirements relating to school tuition organizations (STOs). Appropriates \$1,612,816,900 of Transaction Privilege Tax (TPT) revenues to specified agency funds. Makes various other changes related to taxation.

History

STOs are 501(c)(3) nonprofits established for the purpose of receiving charitable donations and distributing them as scholarships for students to attend any qualified private school of their parents' choice ([STO Manual](#)). In Arizona, there are four tax credit programs which allow taxpayers to claim tax credits for financial contributions made to certified STOs:

- 1) *original* tax credit contributions from individuals ([A.R.S. § 43-1089](#));
- 2) *switcher* tax credit contributions from individuals ([A.R.S. § 43-1089.03](#));
- 3) *low-income* tax credit contributions from corporations ([A.R.S. § 43-1183](#), [20-224.06](#)); and
- 4) *disabled/displaced* tax credit contributions from corporations ([A.R.S. § 43-1184](#), [20-224.07](#)).

The TPT is a gross receipts tax levied on certain persons for the privilege of conducting business in the state. Although commonly referred to as a sales tax, TPT differs from a true sales tax as it is imposed upon the seller rather than the buyer of the taxable item. Although the seller may pass the burden of the tax onto the buyer, the seller is the party that remains ultimately liable to pay the tax ([2021 Tax Handbook](#); [ARS Title 42, Chapter 5, Articles 1-2](#)).

The use tax is assessed on items purchased in other states and brought into Arizona for which no tax, or tax at a lesser rate, has been paid in another state. The use tax serves to protect Arizona retailers from out-of-state competition by attempting to ensure that in-state and out-of-state purchases are taxed at an equal rate ([2021 Tax Handbook](#); [ARS Title 42, Chapter 5, Article 4](#)).

Provisions

Department of Revenue Integrated Tax System Project (ITSP)

1. Establishes the ITSP Fund consisting of:
 - a) Fees assessed to local governments;
 - b) Monies from the 0.6% education sales tax; and
 - c) Monies from the marijuana excise tax (Sec. 4, 6).
2. Stipulates that ITSP Fund monies are subject to legislative appropriation. (Sec. 6)
3. Asserts that all monies in the ITSP Fund are to be used only to implement the ITSP. (Sec. 6)
4. Establishes the ITSP Advisory Committee and outlines its membership. (Sec. 2)

☐ Prop 105 (45 votes)

☐ Prop 108 (40 votes)

☐ Emergency (40 votes)

☐ Fiscal Note

5. Repeals the ITSP Advisory Committee on January 1, 2030. (Sec. 3)

School Tuition Organizations

6. Increases the original tax credit from:
 - a) \$500 to \$1,493, for a single individual or head of household; and
 - b) \$1,000 to \$2,983, for a married couple filing jointly. (Sec. 17)
7. Repeals the switcher tax credit for individual contributions to a certified STO. (Sec. 18)
8. Directs STOs with monies left over from the switcher tax credit after its repeal to award the monies according to the requirements for the original tax credit. (Sec. 34)
9. Provides that any tax credits earned through the switcher tax credit continue to be valid after its repeal. (Sec. 36)
10. Increases the aggregate cap for all disabled/displaced tax credit contributions from \$6,000,000 to \$8,000,000. (Sec. 19)
11. Increases, beginning in FY 2024, the aggregate cap for the disabled/displaced tax credit by 2% annually. (Sec. 19)
12. Prohibits STOs from requiring a student or student's family to provide a good or service that benefits the STO in exchange for a scholarship. (Sec. 21)
13. Prohibits STOs from issuing scholarships, with monies received through corporate tax credit contributions, that exceed the amount of a school's tuition. (Sec. 22)
14. Modifies the definition of *qualified student* for the purposes of the disabled/displaced tax credit. (Sec. 23)

Miscellaneous

15. Limits, retroactive to July 1, 2021, for the purposes of aircraft license tax valuation, the annual increase of the average fair market value of an aircraft to the annual percentage change in the average United States Consumer Price Index. (Sec. 1, 35)
16. Establishes 2019 as the benchmark year for valuation of aircraft and provides a tax credit for taxpayers who paid a tax which exceeds the amount of taxes due under the new aircraft valuation limit. (Sec. 1, 30)
17. Increases, from \$50,000,000 to \$100,000,000, the total amount of state TPT which the state may distribute to cities and counties to fund the cost of public infrastructure needed to support manufacturing facilities. (Sec. 5)
18. Broadens the TPT and use tax exemptions for the sale of agricultural machinery and equipment by:
 - a) Removing the requirement that such equipment be new;
 - b) Removing the requirement that leases of such be at least two years long; and
 - c) Adding *off-highway vehicles*. (Sec. 7, 8, 9, 11)
19. Instructs DOR to create and maintain an Individual Income Tax Model to estimate the fiscal impact of proposed individual income tax legislation. (Sec. 14)
20. Distributes \$1,637,816,900 of TPT revenues from monies not designated as the distribution base to various agency funds in FY 2023 as follows:
 - a) Arizona Department of Transportation State Highway Fund \$944,774,800;
 - b) Arizona Department of Transportation State Aviation Fund \$20,600,000;
 - c) Department of Emergency and Military Affairs Border Security Fund \$209,205,000;
 - d) Budget Stabilization Fund \$425,000,000; and
 - e) Parks Board State Parks Revenue Fund \$38,237,100. (Sec. 31)

21. Instructs the directors of the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting to add the TPT revenues distributed to the various agency funds in the amount of GF revenue reported for FY 2023, excluding the beginning balance, for the purposes of determining the TY 2024 income tax rate under the statutory revenue thresholds. (Sec. 32)
22. Defines *containment structure*. (Sec. 7, 8, 10-13)
23. Contains an applicability clause for provisions relating to taxation of agricultural machinery and equipment. (Sec. 33)
24. Contains a conditional enactment clause for provisions relating to taxation of agricultural machinery and equipment and of containment structures. (Sec. 37)
25. Contains a legislative intent clause. (Sec. 29)
26. Makes technical and conforming changes. (Sec. 1, 4, 15-17, 20, 21, 23-28)